

TENTATIVE TAX AND SAVINGS PROGRAM FOR 1943.

1. Tax Program.

(a) Regular Taxes - Apart from social security tax and spending tax below referred to, it might be well for the present, instead of seeking a general revision of the tax law, to concentrate on the plugging up of major leaks and the correction of glaring inequities. These inequities are:

- (1) Depletion allowances for oil and other mineral.
- (2) Tax exempt securities. In taxing income from outstanding tax-exempt bonds and possibly also from future issues, tax credit should be allowed equivalent to the increased yield he might have obtained from an equivalent investment in a taxable security. Such credit would tend to maintain existing market differentials between tax-exempt and taxable securities.
- (3) Joint Returns. Tax on joint return basis might be applied only to combined income in excess of \$2500, permitting combined income under \$2500 to be reported separately by husband and wife. (Consideration might also be given to permitting combined income under \$2500 to be equally divided between husband and wife by whomever earned, thus giving all states the benefit of the community property principle on combined income under \$2500 income.)

(b) Social Security Taxes. A substantial increase in the social security tax would seem desirable and if obtained would remove the need

of applying the proposed compulsory saving plan or the victory tax to the low wage groups earning less say than \$20 or \$25 a week. If coupled with increased coverage and benefits, this would constitute an acceptable and highly beneficial form of compulsory saving.

(c) A graduated tax on retail spending. It is suggested that coupons be required for all spending for essential consumption items (except those specifically exempted by the government, because of their abundance, or for special policy reasons such as might be present in the case of milk and bread, and consumption of which might be encouraged within the limits allowed under specific rationing schemes.) Each adult individual should be entitled to a minimum amount of free coupons, say \$1,000, (coupons acquired in excess of that amount would be subject to a graduated tax, starting at 10% on the first \$500 excess with an additional 10% increase in the tax until the tax reaches 100%, or there might be some advantage in gearing the scheme from a \$50 per month free coupon base.

2. Credit Withholding Levy.

The purpose of this levy should be to put a large part of our income tax system on a pay-as-you-go basis and also to provide for a measure of obligatory lending.

A stated percent (say 25 per cent of all wages and salaries in excess of \$25 per week and not exceeding \$75 per week, 33 1/3 per cent of all wages, salaries, business drawing accounts in excess of \$75 per week, 25 per cent of all fees and commissions in excess of \$100 earned by firms and individuals bearing their own overhead expense, and 33 1/3 per cent

of all dividend and interest payments should be deducted and collected at the source for the Treasury.

These deductions should be treated as credits in favor of the individuals to whom the payments were due. In the year-end returns the taxpayer should be entitled to claim refund to the extent that such credits collected at the source exceeded a stated per cent of his net income, and should be required to make up that percentage to the extent that it has not been collected at the source. We might aim at an adjusted pay-as-you-go credit of 25% of the first \$2500 net income and of 33 1/3% of the net income in excess of \$2500. The pay-as-you-go credits so adjusted should be employable by the individual taxpayer for the following purposes:

(1) Up to 50% of such adjusted pay-as-you-go credits may then be used to pay income taxes as finally determined in year-end returns. A somewhat greater amount for income tax purposes might be allowed to enable the taxpayer to meet life insurance premiums, not exceeding a specified portion of the taxpayer's income, a limited class of debts, and other demands imposing special hardships on the taxpayer.

(2) The balance of such adjusted pay-as-you-go credits should be treated as obligatory lending. On these obligatory loans no interest should be paid, but principal should be returned within five years after the close of the war, with provisions for earlier repayment in cases of actual need.

Consideration might be given to requiring an additional per-

centage, perhaps graduated, of net incomes exceeding, say, \$20,000 to be made a part of the obligatory lending scheme. Consideration should also be given to the extension of the obligatory loan scheme in appropriate form to corporations, not so much because of its stabilizing effect as because of its merits in reducing the cost of financing the war and the more acute need for war bond campaigns.

3. Adjustment to "a pay-as-you-go" Tax System.

To make it possible to put the income tax largely on a pay-as-you-go basis and to prevent the demand for tax relief muddying the political waters, it is tentatively suggested that the following tax credits or tax remissions be allowed on the tax returns for 1942 if the proposed Credit-withholding levy is adopted:

- (a) The amount of the 1942 tax on the first \$2500 taxable income be remitted completely.
- (b) 50% of the amount of the 1942 tax on the taxable income over \$2500 and not exceeding \$5000 be remitted.
- (c) 25% of the amount of the 1942 tax on taxable income over \$5000 and not exceeding \$10,000.
- (d) 10% of the amount of the 1942 tax on earned taxable income over \$10,000 and not exceeding \$50,000.

The particular amounts suggested for remission must be weighed in light of revenue requirements, equitable claims and irrepressible political pressures, and the amounts suggested here are set forth for the purpose of provoking discussion. It is assumed, of course, that the net effect

of the proposals should not decrease the revenues collected in taxes during the year 1943.

4. If these proposals are properly integrated into the tax system, it might be possible to drop the victory tax entirely. It might also be possible to substitute for the present high salary controls, a special tax of 50% of all net income in excess of \$25,000, after the payment of all other taxes, of 75% of such income over \$50,000, and 100% of such income over \$100,000.